

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF HARRISVILLE	County ALCONA
Audit Date 03/31/2005	Opinion Date 09/08/2005	Date Accountant Report Submitted to State: 09/30/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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TOWNSHIP OF HARRISVILLE
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2005

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AUDITORS' REPORT

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September 8, 2005

Independent Auditors' Report

Township Board
Township of Harrisville
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of the Township of Harrisville, Alcona County, Michigan, as of and for the year ended March 31, 2005, which collectively comprise a portion of the Township's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 2, management has not presented the management discussion and analysis and the government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of the management discussion and analysis and the government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Township's governmental activities is not reasonably determinable.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Harrisville, Alcona County, Michigan, as of March 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2005, on our consideration of the Township of Harrisville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Township of Harrisville has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2005.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2005

	General Fund	Road Fund	Cemetery Fund	Budget Stabilization Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents (Note 3)	\$ 86,451	\$ 79,857	\$ 3,697	\$ 0	\$ 19,871	\$ 189,876
Investments (Note 3)	27,354	0	0	31,954	7,056	66,364
Taxes receivable	3,891	7,750	0	0	0	11,641
Due from local units	5,128	0	0	0	0	5,128
Due from other funds (Note 5)	<u>2,391</u>	<u>0</u>	<u>400</u>	<u>0</u>	<u>0</u>	<u>2,791</u>
Total Assets	<u>\$ 125,215</u>	<u>\$ 87,607</u>	<u>\$ 4,097</u>	<u>\$ 31,954</u>	<u>\$ 26,927</u>	<u>\$ 275,800</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accrued liabilities	\$ 696	\$ 0	\$ 0	\$ 0	\$ 0	\$ 696
Due to other funds (Note 5)	<u>400</u>	<u>0</u>	<u>2,140</u>	<u>0</u>	<u>251</u>	<u>2,791</u>
Total liabilities	<u>1,096</u>	<u>0</u>	<u>2,140</u>	<u>0</u>	<u>251</u>	<u>3,487</u>
<u>Fund Equity</u>						
Fund Balances:						
Reserved for:						
Perpetual care	0	0	0	0	12,635	12,635
Unreserved:						
Undesignated, reported in:						
General fund	124,119	0	0	0	0	124,119
Special revenue funds	<u>0</u>	<u>87,607</u>	<u>1,957</u>	<u>31,954</u>	<u>14,041</u>	<u>135,559</u>
Total fund equity	<u>124,119</u>	<u>87,607</u>	<u>1,957</u>	<u>31,954</u>	<u>26,676</u>	<u>272,313</u>
Total Liabilities and Fund Equity	<u>\$ 125,215</u>	<u>\$ 87,607</u>	<u>\$ 4,097</u>	<u>\$ 31,954</u>	<u>\$ 26,927</u>	<u>\$ 275,800</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2005

	General Fund	Road Fund	Cemetery Fund	Budget Stabilization Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>						
Taxes	\$ 27,851	\$ 76,039	\$ 0	\$ 0	\$ 0	\$ 103,890
Licenses and permits	1,708	0	0	0	0	1,708
State revenue	93,180	2,792	0	0	1,457	97,429
Charges for services	17,925	0	0	0	0	17,925
Interest and rentals	1,735	0	2,125	285	78	4,223
Other	1,388	0	3,100	0	0	4,488
Total revenue	<u>143,787</u>	<u>78,831</u>	<u>5,225</u>	<u>285</u>	<u>1,535</u>	<u>229,663</u>
<u>Expenditures</u>						
Current:						
General government	79,573	0	9,870	0	0	89,443
Public safety	29,440	0	0	0	413	29,853
Public works	5,064	71,880	0	0	0	76,944
Recreation and cultural	3,464	0	0	0	0	3,464
Other functions	12,668	0	0	0	0	12,668
Capital outlay	1,839	0	0	0	0	1,839
Total expenditures	<u>132,048</u>	<u>71,880</u>	<u>9,870</u>	<u>0</u>	<u>413</u>	<u>214,211</u>
Excess of revenue over (under) expenditures	<u>11,739</u>	<u>6,951</u>	<u>(4,645)</u>	<u>285</u>	<u>1,122</u>	<u>15,452</u>
<u>Other Financing Sources (Uses)</u>						
Operating transfers in	0	0	2,500	0	0	2,500
Operating transfers out	(2,500)	0	0	0	0	(2,500)
Total other financing sources (uses)	<u>(2,500)</u>	<u>0</u>	<u>2,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	9,239	6,951	(2,145)	285	1,122	15,452
Fund balances - beginning of year	<u>114,880</u>	<u>80,656</u>	<u>4,102</u>	<u>31,669</u>	<u>25,554</u>	<u>256,861</u>
Fund balances - end of year	<u>\$ 124,119</u>	<u>\$ 87,607</u>	<u>\$ 1,957</u>	<u>\$ 31,954</u>	<u>\$ 26,676</u>	<u>\$ 272,313</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The following is a summary of significant accounting policies.

A. Description of Township Operations and Fund Types

The Township of Harrisville operates under an elected Township Board and provides services to its residents in many areas including fire protection and road maintenance.

The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, except as noted in Note 2. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school districts which are separate government entities and are not a part of this report.

B. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes and state revenues.

Special Revenue Funds – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The other governmental funds of the Township account for interest and other resources whose use is restricted for a particular purpose.

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. This fund is used to account for assets held in trust or as an agent for others, and consists of the Current Tax Collection Fund.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The Township's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at a detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. All of the Township's Governmental funds are considered major funds, except for the Liquor Law Enforcement Fund and Cemetery Perpetual Care Fund. Fiduciary funds are reported by type.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions:

On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Township, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: licenses and permits, state-levied locally shared taxes (including sales tax), grants, interest and various other items.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenditures:

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2005, the Township has implemented, with exceptions as noted below, Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Township's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the programs between governmental activities and business-type activities.

The Township did not adopt GASB 34 and GASB 37 in its entirety, as permitted by the Local Audit and Finance Division of the Treasury Department of the State of Michigan (State of Michigan), because the Township believes that the cost of implementing the statements may exceed the benefit of the additional information. The Township also believes that the omissions of the Management Discussion and Analysis, Government-wide Financial Statements and certain permitted note disclosures were not material to the statements as a whole due to the disclosure of the fixed assets in a separate note in this report. These amounts are not included as account groups in the fund statement, as in the past, per the requirements of GASB 34.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ 189,876
Investments	<u>66,364</u>
	<u>\$ 256,240</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts and certificates of deposit)	\$ 76,508
Investments in Municipal Investment Account Pooled Funds	<u>179,732</u>
	<u>\$ 256,240</u>

Deposits are carried at cost. Deposits of the Township are held at Huron Community Bank, East Tawas, Michigan. At March 31, 2005, the carrying amounts of the Township's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 76,508	\$ 76,943
Uninsured – uncollateralized	<u>0</u>	<u>0</u>
	<u>\$ 76,508</u>	<u>\$ 76,943</u>

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements

TOWNSHIP OF HARRISVILLE
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits are in accordance with statutory authority.

All investments at March 31, 2005 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk - Categorized</u>		
Huron Community Bank Municipal Investment Account	<u>\$ 179,732</u>	<u>\$ 179,732</u>

NOTE 4 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. All liabilities incurred have been accrued in the financial statements as of March 31, 2005.

NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 2,391	\$ 400
Cemetery Fund	<u>400</u>	<u>2,140</u>
Total Major Governmental Funds	2,791	2,540
Non-major Governmental Funds	<u>0</u>	<u>251</u>
Total	<u>\$ 2,791</u>	<u>\$ 2,791</u>

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY (CONTINUED)

The amounts of interfund receivables and payables for the primary government as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Cemetery Fund	\$ 400	General Fund	\$ 400
General Fund	251	Liquor Law Enforcement Fund	251
General Fund	<u>2,140</u>	Cemetery Fund	<u>2,140</u>
Total	<u>\$ 2,791</u>	Total	<u>\$ 2,791</u>

NOTE 6 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance 04/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 03/31/05</u>
Office furniture and fixtures	\$ 5,016	\$ 0	\$ 0	\$ 5,016
Building	55,587	0	0	55,587
Machinery and equipment	<u>22,527</u>	<u>1,839</u>	<u>0</u>	<u>24,366</u>
Totals	<u>\$ 83,130</u>	<u>\$ 1,839</u>	<u>\$ 0</u>	<u>\$ 84,969</u>

The Township has opted to disclose these assets in order to maintain their identity and related costs.

NOTE 7 - PENSION PLAN

The Township has established a non-standardized money purchase pension plan with Travelers Life Insurance Company, a defined contribution pension plan, effective July 1, 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have attained age 18. Vesting is 100% upon entering the plan. Each employee must contribute 7% of their gross earnings to the plan. The Township is required to contribute an amount equal to 7% of the employee's gross earnings. During the year, the Township's required contributions amounted to \$3,383, which was 7% of its current-year covered payroll. The Township's actual contributions amounted to \$3,383. Employee's required contributions amounted to \$3,383, which was 7% of its current year covered payroll. The employee's actual contributions amounted to \$3,383. No pension provision changes occurred during the year that affected the required contributions to be made by the Township of its employees. Plan provisions and contribution requirements are established and may be amended by the Township of Harrisville Board.

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the Township was \$53,043,969. The tax rates were .5270 mills for operations and 1.4410 mills for roads.

NOTE 9 - OPERATING TRANSFERS

During the year ended March 31, 2005, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 0	\$ 2,500
Cemetery Fund	<u>2,500</u>	<u>0</u>
Total Major Funds	<u>\$ 2,500</u>	<u>\$ 2,500</u>

During the year ended March 31, 2005, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Cemetery Fund	<u>\$ 2,500</u>	General Fund	<u>\$ 2,500</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended March 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 26,667	\$ 26,667	\$ 27,851	\$ 1,184
Licenses and permits	1,200	1,200	1,708	508
State revenue	94,880	94,880	93,180	(1,700)
Charges for services	15,667	15,667	17,925	2,258
Interest and rentals	1,654	1,654	1,735	81
Other	0	0	1,388	1,388
Total revenue	<u>140,068</u>	<u>140,068</u>	<u>143,787</u>	<u>3,719</u>
<u>Expenditures</u>				
Current:				
General government:				
Township board	21,300	21,300	12,171	9,129
Township supervisor	7,700	7,700	7,615	85
Elections	5,900	5,900	1,886	4,014
Assessor	15,980	15,980	13,717	2,263
Board of review	2,650	2,650	1,437	1,213
Zoning	11,030	11,030	4,908	6,122
Clerk	13,125	13,125	12,900	225
Treasurer	17,067	17,067	16,886	181
Building and grounds	11,040	11,040	8,053	2,987
Public safety	32,704	32,704	29,440	3,264
Public works:				
Highways and streets	2,843	2,843	2,119	724
Street lighting	4,000	4,000	2,945	1,055
Recreation and cultural:				
Harrisville Township Recreation Area	9,500	9,500	3,464	6,036
Other functions:				
Insurance	9,400	9,400	7,290	2,110
Employee benefits	6,000	6,000	4,625	1,375
Other	9,840	9,840	753	9,087
Capital outlay	<u>1,858</u>	<u>1,858</u>	<u>1,839</u>	<u>19</u>
Total expenditures	<u>181,937</u>	<u>181,937</u>	<u>132,048</u>	<u>49,889</u>
Excess of revenue over (under) expenditures	(41,869)	(41,869)	11,739	53,608
<u>Other Financing Uses</u>				
Operating transfers out	<u>0</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>0</u>
Excess of revenue over (under) expenditures and other uses	(41,869)	(44,369)	9,239	53,608
Fund balances - beginning of year	<u>114,880</u>	<u>114,880</u>	<u>114,880</u>	<u>0</u>
Fund balances - end of year	<u>\$ 73,011</u>	<u>\$ 70,511</u>	<u>\$ 124,119</u>	<u>\$ 53,608</u>

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 ROAD FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Taxes	\$ 72,924	\$ 72,924	\$ 76,039	\$ 3,115
State revenue	<u>3,900</u>	<u>3,900</u>	<u>2,792</u>	<u>(1,108)</u>
Total revenue	76,824	76,824	78,831	2,007
<u>Expenditures</u>				
Current:				
Public works	<u>95,204</u>	<u>95,204</u>	<u>71,880</u>	<u>23,324</u>
Excess of revenue over (under) expenditures	(18,380)	(18,380)	6,951	25,331
Fund balances - beginning of year	<u>80,656</u>	<u>80,656</u>	<u>80,656</u>	<u>0</u>
Fund balances - end of year	<u>\$ 62,276</u>	<u>\$ 62,276</u>	<u>\$ 87,607</u>	<u>\$ 25,331</u>

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CEMETERY FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Sale of lots	\$ 3,000	\$ 3,000	\$ 3,100	\$ 100
Hall rental	<u>1,200</u>	<u>1,200</u>	<u>2,125</u>	<u>925</u>
Total revenue	4,200	4,200	5,225	1,025
<u>Expenditures</u>				
General government:				
Cemetery	<u>18,000</u>	<u>18,000</u>	<u>9,870</u>	<u>8,130</u>
Excess of revenue over (under) expenditures	(13,800)	(13,800)	(4,645)	9,155
<u>Other Financing Sources</u>				
Operating transfers in	<u>0</u>	<u>2,500</u>	<u>2,500</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures	(13,800)	(11,300)	(2,145)	9,155
Fund balances - beginning of year	<u>4,102</u>	<u>4,102</u>	<u>4,102</u>	<u>0</u>
Fund balances - end of year	<u>\$ (9,698)</u>	<u>\$ (7,198)</u>	<u>\$ 1,957</u>	<u>\$ 9,155</u>

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 BUDGET STABILIZATION FUND - SPECIAL REVENUE FUND
For the Year Ended March 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest	\$ 272	\$ 272	\$ 285	\$ 13
Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of revenue over expenditures	272	272	285	13
Fund balances - beginning of year	<u>31,669</u>	<u>31,669</u>	<u>31,669</u>	<u>0</u>
Fund balances - end of year	<u>\$ 31,941</u>	<u>\$ 31,941</u>	<u>\$ 31,954</u>	<u>\$ 13</u>

OTHER INFORMATION

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

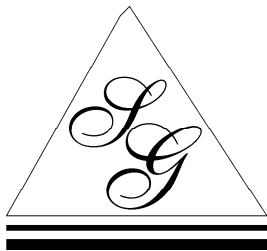
COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
March 31, 2005

	<u>Liquor Law Enforcement Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total Other Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 14,292	\$ 5,579	\$ 19,871
Investments	<u>0</u>	<u>7,056</u>	<u>7,056</u>
	<u>\$ 14,292</u>	<u>\$ 12,635</u>	<u>\$ 26,927</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Due to other funds	<u>\$ 251</u>	<u>\$ 0</u>	<u>\$ 251</u>
<u>Fund Equity</u>			
Fund balances:			
Reserved for:			
Perpetual care	0	12,635	12,635
Unreserved, undesignated reported in:			
Special revenue funds	<u>14,041</u>	<u>0</u>	<u>14,041</u>
Total fund equity	<u>14,041</u>	<u>12,635</u>	<u>26,676</u>
Total Liabilities and Fund Equity	<u>\$ 14,292</u>	<u>\$ 12,635</u>	<u>\$ 26,927</u>

TOWNSHIP OF HARRISVILLE
Alcona County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended March 31, 2005

	Liquor Law Enforcement Fund	Cemetery Perpetual Care Fund	Total Other Governmental Funds
<u>Revenue</u>			
State revenue	1,457	0	1,457
Interest and rentals	<u>0</u>	<u>78</u>	<u>78</u>
Total revenue	1,457	78	1,535
<u>Expenditures</u>			
Current:			
Public safety	<u>413</u>	<u>0</u>	<u>413</u>
Excess of revenue over expenditures	1,044	78	1,122
Fund balances - beginning of year	<u>12,997</u>	<u>12,557</u>	<u>25,554</u>
Fund balances - end of year	<u>\$ 14,041</u>	<u>\$ 12,635</u>	<u>\$ 26,676</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 8, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board
Township of Harrisville
Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Township of Harrisville as of and for the year ended March 31, 2005, which collectively comprise a portion of the Township's basic financial statements and have issued our report thereon dated September 8, 2005. The report on the governmental activities was qualified because the Management Discussion and Analysis and Government-Wide Financial Statements were not included in the basic financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Harrisville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township of Harrisville's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements.

Separation of Duties in the Performance of Functions

Due to a limited staff size, a lack of complete separation of accounting duties with respect to cash receipts and cash disbursements was noted. The cost exceeds the benefit of correcting this weakness, thus management has deemed that corrective action is not practicable under the circumstances.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

Compliance and Other Matters

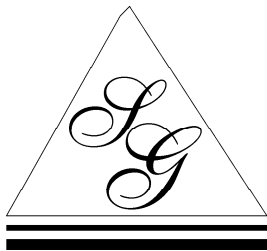
As part of obtaining reasonable assurance about whether the Township of Harrisville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial

Members of the Township Board
Township of Harrisville
September 8, 2005
Page Two

statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

September 8, 2005

Township Board
Township of Harrisville
Alcona County, Michigan

Dear Board Members:

We have audited the financial statements of the Township of Harrisville for the year ended March 31, 2005, and have issued our report thereon dated September 8, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 8, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Harrisville. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Harrisville's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Harrisville are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Township changed accounting policies as a result of adopting, with certain exceptions, Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended March 31, 2005. We noted no transactions entered into by the Township of Harrisville during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Harrisville's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Harrisville, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Harrisville's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Harrisville's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph and the results of our tests of compliance as described in the fourth paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Separation of Duties in the Performance of Functions

Due to a limited staff size, a lack of complete separation of accounting duties with respect to cash receipts and cash disbursements was noted. The cost exceeds the benefit of correcting this weakness, thus management has deemed that a corrective action is not practicable under the circumstances.

General Ledger Reconciliation

During the course of our fieldwork we discovered that the Clerk and Treasurer are not reconciling their books on a timely basis. In accordance with the Uniform Accounting Procedures Manual, the books must be reconciled on a monthly basis. We recommend the Township Clerk and Treasurer reconcile monthly to each other to avoid potential financial problems and/or detect deficiencies in the Township funds.

We wish to express our appreciation for the cooperation and courtesies extended our staff by the employees of the Township.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.